

VZCZCXRO4639  
PP RUEHBZ RUEH DU RUEHJO RUEHMR RUEHRN  
DE RUEHSB #0838/01 2611033  
ZNR UUUUU ZZH  
P 171033Z SEP 08  
FM AMEMBASSY HARARE  
TO RUEHC/SECSTATE WASHDC PRIORITY 3442  
INFO RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE  
RUEHUJA/AMEMBASSY ABUJA 2075  
RUEHAR/AMEMBASSY ACCRA 2295  
RUEHDS/AMEMBASSY ADDIS ABABA 2414  
RUEHBY/AMEMBASSY CANBERRA 1691  
RUEHDK/AMEMBASSY DAKAR 2047  
RUEHKM/AMEMBASSY KAMPALA 2468  
RUEHNR/AMEMBASSY NAIROBI 4900  
RUEAIIA/CIA WASHDC  
RUEHGV/USMISSION GENEVA 1563  
RHEHAAA/NSC WASHDC  
RHMFISS/JOINT STAFF WASHDC  
RUEHC/DEPT OF LABOR WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RHEFDIA/DIA WASHDC  
RUCPDOG/DEPT OF COMMERCE WASHDC  
RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK  
RUZEHAA/CDR USEUCOM INTEL VAIHINGEN GE

UNCLAS SECTION 01 OF 04 HARARE 000838

SENSITIVE  
SIPDIS

AF/S FOR G. GARLAND  
AF/EPS FOR ANN BREITER  
EEB/CBA FOR DENNIS WINSTEAD  
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN  
STATE PASS TO USAID FOR L.DOBBS AND E.LOKEN  
TREASURY FOR J. RALYEA AND T.RAND  
COMMERCE FOR BECKY ERKUL  
ADDIS ABABA FOR USAU  
ADDIS ABABA FOR ACSS

E.O. 12958: N/A  
TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PGOV](#) [ZI](#)  
SUBJECT: BFIF-FUNDED FORUM STIMULATES PUBLIC DEBATE ON

REFORM IN ZIMBABWE

REF: A. HARARE 0777  
[1](#)B. HARARE 0034

[1](#)1. (U) This is an action request. See para 12.

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Summary  
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[1](#)2. (U) On August 21, the American Business Association of Zimbabwe (ABAZ), supported by the State Department's Business Facilitation and Incentive Fund (BFIF) and by local companies, held an economic forum on tackling hyperinflation, stabilizing economies, and trade and investment challenges and opportunities in Zimbabwe. Distinguished economists offered their advice to 285 delegates on sustainable recovery. They also dwelled on the challenge of dealing with special interest groups. Representatives of the USAID-funded Trade Hub in Gaborone, Botswana described the benefits that neighboring countries had reaped from AGOA eligibility. The CEO of Lonzim described Zimbabwe's investment opportunities and challenges, and two speakers addressed both the crisis and the potential of Zimbabwe's minerals sector. In later well-attended breakaway sessions, lively discussion ensued on the path forward for Zimbabwe. Press coverage of the forum was broad and of high quality, including in the government-owned daily newspaper. The funding provided by BFIF and 21 companies in Zimbabwe's challenging hyperinflationary came slightly short of cost; ABAZ has requested additional BFIF funding to cover the loss. End Summary.

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Lessons in Macroeconomic Stabilization  
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¶3. (U) On August 21, the American Business Association of Zimbabwe, supported generously by the State Department, s Business Facilitation and Incentive Fund (BFIF) and sponsorship by a record 21 Zimbabwean companies, held a one-day economic forum, "Zimbabwe\*Beyond Tomorrow." Under the theme "Just Business," newly appointed non-executive mayor of Harare Muchadeyi Masunda moderated the event, attended by 285 delegates including numerous CEOs, managing directors, and finance directors of major Zimbabwean businesses and financial institutions. Speakers described international experience in taming hyperinflation and in stabilizing economies, and offered advice for Zimbabwe. The forum also addressed trade in the region and the challenges and benefits of investing in Zimbabwe, with a focus on the minerals industry. In breakaway sessions the next day, speakers led four well-attended and lively discussions on the same areas.

¶4. (U) Keynote speaker World Bank Senior Economist John Panzer (Ref A) emphasized that the success of economic stabilization and the speed of recovery would depend on Zimbabwe's commitment to policy reform and the consistency of reform implementation. Brazilian economist Caio Megale, returning to Harare after having addressed the first "Just Business" forum in 2006, provided lessons from South America in "Taming the Monster" (inflation). He emphasized the

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importance of consolidating democratic institutions and accepting the rule of law, and the imperative of central bank independence. The central bank should operate with autonomy, accountability, and transparency, and with a single mandate: to achieve price stability. He related the Latin American experience with currency boards and fixed exchange rates, and the negative consequences of high unemployment and high real interest rates when the exchange rate was not allowed to float freely after stabilization. Citing examples from Latin America, he cautioned against the rise of populism, and underlined the ongoing challenges of addressing social distress and income inequality once an economy had stabilized.

¶5. (U) University of Zimbabwe Economics Professor Robert Davies zeroed in on hyperinflation in Zimbabwe. As the two previous economists had also done, he drew on concepts in political economy and the power of special interest groups in answering the question why, with well known tools to solve hyperinflation, the GOZ had not yet reduced monetary growth. He concluded that the state elite was benefiting from the explosive rate of money supply growth. In his view, "schemes" to offset the effects of hyperinflation provided further incentives to corruption. Furthermore, price and foreign exchange controls had intensified shortages and had caused overvaluation of the currency. The sine qua non of economic stabilization was to stop printing money, but the political reasons for which the explosive rate of money creation had occurred in the first place had to be addressed. In conclusion, he warned of interest rate shocks during the stabilization phase, local firms' vulnerability to takeover as capital flowed into the country, and the likely lag in output response behind demand.

¶6. (U) Amanda Hilligas and Maxine Kennett representing the USAID-funded Southern Africa Global Competitiveness Hub (Trade Hub) in Gaborone, Botswana described the work of the Trade Hub in creating a trade and investment enabling environment and in promoting competitiveness in the private sector. They noted the eligibility requirements for AGOA and the positive trends in exports from Africa to the U.S. (Note: Zimbabwe is not AGOA-eligible. End Note) The co-presenters illustrated case studies on successful furniture, textile and apparel exports, and described their

work in the region in the area of modern energy services and in transportation. They concluded their presentation with a short film on the Hub's support of a key transport initiative that promotes regional corridors in southern Africa.

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Time to Jump in? ) A Major Investor's View  
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¶7. (U) Geoff Goss, CEO of LonZim, which raised US\$65 million on the London AIM in December 2007 for investment in Zimbabwe, explained what opportunities LonZim saw in Zimbabwe. LonZim aimed to build a low-cost diversified portfolio of strategic investments in sectors with potential for rapid recovery. He pointed out the undervaluation of companies listed on the Zimbabwe Stock Exchange (the ZSE is trading at only 10 percent of its 1997 market capitalization), and Zimbabwe's other notable assets: tourism destinations; mineral resources; a large diaspora "itching"

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to return with skills, money, and ideas; a population under serviced in telecoms, utilities, and transport; a hardworking labor force; a functioning banking system; a tired but still serviceable infrastructure. He admitted Zimbabwe was a minefield in which to operate, but predicted that economic and political change was "only a matter of time," and now was the time to invest. He advised Zimbabwean companies to prepare for competition by making capital investments now and expanding their market share. He suggested they seek partners for working capital and capital investment. In closing he said LonZim did not fear indigenization of business in Zimbabwe, as long as it emphasized empowerment over endowment.

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Minerals Sector Challenges/Potential  
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¶8. (U) Collen Gura, CEO of Zimbabwe's largest (South African-owned) gold company, enumerated the constraints and opportunities in the golds sector. Historically underpinned by small-scale mining operations, gold production dropped from 27 MT in 1999 to 7 MT in 2007. Gura forecast production of 4.5 MT this year. Vexing the industry were: the overvalued exchange rate, nonpayment of gold deliveries, power outages, shortages of spares, inputs, foreign currency and food for the labor force, the skills exodus, and low investor confidence. Exploration had become a luxury, yet it determined the industry's future. For the sector to recover, Gura called for payment of the market price for gold upon delivery, tax incentives for new gold mining projects, and replication of the platinum model (off-shore based) for gold. He concluded that, under the right policies, gold could drive economic growth, increase export earnings, provide abundant jobs, increase tax revenue, and create many new businesses downstream in Zimbabwe.

¶9. (U) Dolf Prinsloo, Chief Operating Officer of Deloitte Mining Consultancy and Advisory Services in Johannesburg, South Africa, closed the day with an overview of mining in Zimbabwe and a SWOT (strengths, weaknesses, opportunities, and threats) analysis of the industry. He emphasized the need for foreign direct investment in the sector to take advantage of high minerals prices and high demand, especially from China. He concluded it was "now or never" for the mining industry to play a major role in Zimbabwe's recovery and sustainable growth.

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Workshops Generate Lively Discussion  
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¶10. (U) On the morning of August 22, ABAZ held four participatory workshops in focus areas of the forum. Panzer, Megale and Davies were joined by 70 delegates in a

particularly lively discussion about the way forward for Zimbabwe's economy. Panzer commented to econoff that he was especially impressed with the quality of discussion and the delegates, boldness in asserting their views during the two-hour session. Hilligas and Kennett led a workshop attended by 25 delegates on the Trade Hub's work in the textile and apparel industry, and a second session attended

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by 40 delegates on its work promoting exports from southern Africa to the U.S. specialty food sector. Prinsloo, accompanied by Zimbabwe Chamber of Mines President David Murangari focused on Zimbabwe's mining industry.

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Favorable Press Coverage, Even by Government  
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¶11. (U) The breadth and quality of press coverage of the forum was exceptionally good this year, which was especially welcome as ruling party politicians failed to attend, despite the offer of complimentary tickets from ABAZ. Notably, the government mouthpiece The Herald covered the event in a fair and evenhanded manner, quoting the speakers extensively in three separate articles over the course of several days after the forum. The weekly The Standard ran a supplement on the forum and the weeklies The Financial Gazette and The Zimbabwe Independent, as well as various electronic news services, reported accurately and in-depth on the event. ABAZ will distribute the proceedings of the event to delegates in the next days.

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Challenging to Finance; Action Request  
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¶12. (SBU) In Zimbabwe's daunting hyperinflationary business environment, six of the 21 sponsoring companies provided sponsorship in kind (accommodation for speakers, website hosting, fuel coupons which were then bartered for services, etc.), six companies provided US dollar funding, and nine companies sponsored in rapidly depreciating local currency. (Note: Private sector estimates of the annual rate of inflation have reached billions of percent. End note) Supported also by US\$7,000 in BFIF funding, the event closed US\$3,200 in the red. The shortfall arose primarily because numerous expenses were no longer payable in local currency in Zimbabwe's increasingly dollarized economy. The ABAZ executive committee has asked the Embassy to submit a request to meet the shortfall with additional funding from this year's or next fiscal year's BFIF. Post supports the request and asks EEB/CBA to provide the funding, if possible.

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Comment  
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¶13. (SBU) The annual ABAZ Just Business forum once again catalyzed public discussion on economic reform. This year, delegates were more emboldened than ever to speak out publicly for far-reaching reforms and an end to the privileges of special interest groups. In this regard, the forum plays a useful role in broadening dialog among civil society members in Zimbabwe and merits USG financial support.

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